

# **INVESTMENT AND TRADE RELATIONS**

## **A. Investment**

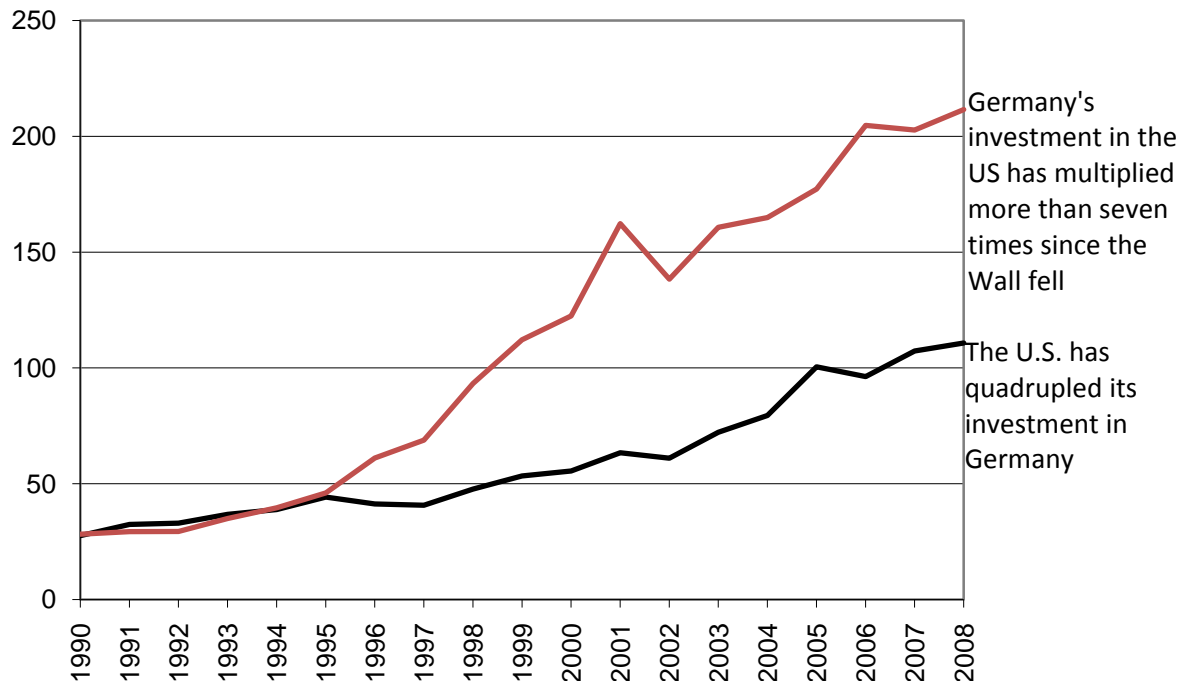
### **Dimensions of Bilateral Investment**

- In 2008, U.S. FDI stock in Germany reached \$110 billion and German investment in the U.S. was \$211 billion.
- In 2008, Germany's stock in the United States ranked as the fifth largest investment in the United States accounting for about 10% of total FDI flows to the U.S.
- FDI flows from the United States to Germany represent the third largest foreign investment and accounts for 11% of total flows to Germany.
- In 2006, U.S. affiliate assets in Germany totaled more than \$400 billion and German assets in the U.S. were even larger (over \$600 billion).

### **Growth in Investment**

- Our economic as well as our political partnership has contributed to making reunification a success. Since reunification, U.S. FDI in Germany has quadrupled while German investment in the U.S. is roughly seven times what it was when the Wall fell.
- Not only is cross-investment large, but it is continuously growing. In 1985, the stock of U.S. foreign direct investment in Germany was around \$14 billion. By 2008, it had grown to more than \$110 billion. And even more impressive is the growth in the stock of German foreign direct investment in the United States, which increased from around \$24 billion in 1985 to \$211 billion in 2008.

### Bilateral Direct Investment Position (billions of dollars)



Source: Bureau of Economic Analysis, U.S. Department of Commerce

### U.S. Investment in Germany

- The Bundesbank's 2007 data showed the U.S. is the third largest investor in Germany. Only the Netherlands and Luxembourg invested more in Germany. U.S. assets in Germany are greater than total U.S. assets in all of South America.
- Germany is the U.S.' eighth most important investment target. In 2008, Germany accounts for about 4% of the \$3.1 trillion that U.S. firms have invested around the world.
- In 2008, net FDI flows from the United States to Germany totaled \$110 billion, approximately one-fourth of all FDI flows Germany received that year.
- Three hundred U.S. companies have invested in the former eastern Laender, making the United States the top investor there.

### U.S. Investment in Germany by Sector

- Manufacturing accounts for 30% of all U.S. investment stock in Germany. The finance, banking, and insurance sectors accounted for 15% of all U.S. investment stock in Germany, while wholesale trade accounted for one-tenth of all U.S. investment stock in Germany.

<b>Total U.S. investment stock in Germany -- 2008</b>	<b>Value (billion \$)</b>	<b>% of Total Investment Stock</b>
Mining	0.41	0.4%
Total Manufacturing	34.00	30.7%
Food	0.83	0.8%
Chemicals	6.52	5.9%
Metals	2.52	2.4%
Machinery	3.58	3.2%
Computers and electronics	5.04	4.5%
Electrical equipment	1.49	1.3%
Transportation equipment	7.16	6.5%
Other manufacturing	6.83	6.2%
Finance and insurance	14.44	13.0%
Wholesale trade	10.50	9.5%
Professional, scientific and technical services	5.40	4.9%
Information	2.50	2.3%
Depository institutions	2.32	2.1%
Holding companies	32.767	29.6%
Other industries	8.45	7.6%
<b>All industries</b>	<b>110.74</b>	<b>100%</b>

Source: Bureau of Economic Analysis

### **German Investment in the U.S.**

- In 2007, Germany's top investment destination was the United States with a total investment stock of over €193 billion.
- In turn, Germany accounts for approximately one-tenth of all foreign direct investment in the United States. Germany is the fourth largest foreign investor in the United States after the UK, Japan, and the Netherlands.
- The United States is German businesses' # 1 investment target. German investment in the American southeast alone is greater than all of European investment in China.
- Despite the rise of China's economy and reports of Chinese interest in acquiring U.S. companies, Germany's investment position in the U.S. was more than 170 times as large as China's in 2008. In 2008, U.S. FDI in Germany was two and one-half times more than U.S. FDI in China.
- India too represents a massive potential market for both the U.S. and Germany, but its investments in the U.S. are only 1/50th of Germany's.
- Sovereign wealth funds, particularly those associated with Gulf Nations, have attracted a lot of attention. But Germany's investment position in the U.S. was more than fourteen times as large as that of the entire Middle East in 2008.

- Russia's new billionaire class also attracts much attention yet Germany's investment in the U.S. is more than 200 times larger than that of Russia.

### Top 10 German Investment Destinations

Rank	Country	Total Investment Stock (Millions of Euros, 2007)
<b>1</b>	<b>United States</b>	<b>193.866</b>
2	United Kingdom	123.340
3	France	43.703
4	The Netherlands	42.570
5	Luxembourg	41.589
6	Belgium	37.063
7	Switzerland	29.827
8	Italy	28.341
9	Austria	27.103
10	Czech Republic	21.629

Source: Deutsche Bundesbank

### German Investment in U.S. by Sector

- In 2008, Germany led all other countries in information investment in the United States, investing over \$50 billion and accounting for nearly one-third of all foreign direct investment in information in the United States.
- In 2008, German affiliates accounted for 12% of all real estate investment in the United States by foreign firms with just over \$6 billion invested. Only, the Caribbean Islands and Japanese affiliates accounted for a greater proportion with an investment of \$8.2 billion and \$6.9 billion respectively.
- Germany's investments in the American banking and finance sector total \$40 billion and are only exceeded by those of Canada, and the UK. Germany's share accounts for 11% of all FDI in this sector.
- Germany is the sixth largest foreign investor in the American manufacturing sector (\$55 billion in FDI). Germany accounts for 7% of all FDI in this sector.
- Manufacturing accounts for just over one-quarter of all of German investment in the United States. Investment in Information accounts for just under one-quarter, and finance and banking sections account for one-fifth of all German investment in the U.S.

<b>Total German investment stock in the U.S. -- 2008</b>	<b>Value (billion \$)</b>	<b>% of Total Investment Stock</b>
Total Manufacturing	55.60	26.3%
Food	0.04	0.02%
Chemicals	28.35	13.4%
Metals	2.05	0.9%
Machinery	2.21	1.1%
Computers and electronics	0.53	0.2%
Electrical equipment	0.30	0.01%
Transportation equipment	12.97	6.1%
Other manufacturing	9.15	4.3%
Information	50.65	23.9%
Finance and insurance	36.25	17.1%
Wholesale trade	16.42	7.8%
Depository institutions	4.68	2.2%
Retail trade	4.39	2.1%
Other industries	43.53	20.6%
<b>All industries</b>	<b>211.52</b>	<b>100%</b>

Source: Bureau of Economic Analysis

## Capital Markets

- U.S.-based investors' share of German equities grew rapidly from just over 2 percent in 2001 to almost 18 percent by the end of 2006. Furthermore, Dresdner Kleinwort reports that U.S. investors are close to holding stakes in Germany's largest corporations equal to that of German domestic institutional investors.
- Similarly, the German Stock Exchange lists more than 3,300 tradable U.S. stocks. German investors held \$100 billion in U.S. equities and \$266 billion of overall U.S. securities as of June 2007.
- U.S. investors bought nearly \$9 billion in German equities between January and August 2007 -- a figure greater than the net cumulative purchases of German equities over the past decade. This accounted for nearly 10% of all foreign equities purchased by Americans during that time period.
- German net purchases of U.S. corporate bonds amounted to \$5.4 billion in 2007.

## FDI Impact on Public Opinion

- According to UNCTAD, studies suggest that outward FDI from the United States has a positive or non-significant effect on employment at home. However, a study of German transnational corporations found that foreign-affiliate employment tends to substitute for employment of the foreign firm, with significant positive employment effects for host countries that have a large wage gap with Germany.

- UNCTAD also rated both Germany and the United States as performing below their potential for inward FDI. However, they also are two of the countries with the greatest FDI prospects through 2009, according to an UNCTAD survey.
- The German Marshall Fund found in its study of transatlantic public opinion that Americans expressed the strongest opposition to FDI (40%) while Germans and British respondents reported the strongest pro-foreign investment sentiment (69% each).

## **B. Trade**

Trade constitutes an important pillar of the transatlantic relationship. The enormous FDI flows between the two economies further fuel bilateral trade and underscore the integration of our economies. The tight linkages between parent companies and their affiliates are reflected in the fact that roughly 62% of U.S. imports from Germany consists of intra-firm trade. In other words, the more we invest in each other's economies, the more we will trade and create the jobs and prosperity that benefit us both.

Since the onset of the economic crisis, however, bilateral trade has fallen sharply. In the first quarter 2009, U.S. trade with Germany has fallen by 25% compared to one year earlier. In June 2009, U.S.-German trade has been slightly increasing by 1%, possibly indicating the turn around in transatlantic trade. To get our economies back on track, we need to revive transatlantic and global commerce by sustaining a robust, open trading system. The fundamentals of our trading relationship are still strong.

### **Importance of U.S. as Germany's Trading Partner**

- In 2008, the U.S. imported \$97 billion worth of goods and services from Germany and exported nearly \$55 billion worth of goods and services to it. That is nearly four times as much trade as the U.S. had with India last year. In 2008, German-U.S. still trade continued its dynamic development and increased by 6% compared to 2007.
- Since reunification, German exports to the U.S. have increased by 3.5 times, while U.S. exports to Germany have almost tripled.
- After France, the United States is Germany's largest export market, accounting for more than 7% of German exports. The U.S. accounts for nearly one-quarter of German exports when intra-EU trade flows are excluded.
- The United States also is Germany's third largest supplier, and its principal trading partner outside the EU.
- The United States is the second largest non-EU export market for German farmers.

- The United States has run a trade deficit with Germany for at least the past quarter century. In 2008, this deficit was nearly \$43 billion. The changes in trade flows since the onset of the economic crisis, however, also led to a gradual reduction of this imbalance. In the first half year of 2009, the U.S. trade deficit with Germany halved compared to the same time period last year (from \$22 billion in 2008 to \$11 billion in 2009).
- There is no question that China and India's economies are growing fast. Yet Germany trades more with the United States than it does with China and India put together.

### **Importance of Germany as U.S.' Trading Partner**

- Germany is the U.S.'s most important trading partner within the EU and the U.S.' fifth largest trading partner worldwide. Germany remains the largest European exporter to the U.S., sending roughly 60% more exports than the second largest European exporter.
- Germany is the U.S.' largest European supplier. Germany sold more goods to the U.S. than the UK, South Korea, France or Taiwan and accounted for almost 5 percent of the \$2 trillion in U.S. imports in 2008.
- Germany also is the largest European importer of U.S. goods, which make up 14% of Germany's imports when intra-EU trade is excluded.
- In all, Germany is the sixth largest importer of U.S. goods and accounts for 4.3% of U.S. exports. U.S. goods exports to Germany have been growing fast with an increase of 20 percent in 2007 -- outpacing export growth to such leading U.S. export markets as China, Taiwan, France and the UK. In 2008, U.S. exports to Germany have still been increasing by 10%.

<b>Top U.S. Manufacturing Exports to Germany 2008</b>	<b>Value (million \$)</b>	<b>% of total</b>
Autos and auto parts	9919	18.2
Machinery	6421	11.8
Aircraft	5601	10.3
Medical equipment	5540	10.2
Electric Machinery	5245	9.6
Pharmaceuticals	4666	8.6
Total	54505	100

<b>Top U.S. Manufacturing Imports from Germany 2008</b>	<b>Value (million \$)</b>	<b>% of total</b>
Autos and auto parts	22979	23.6
Machinery	21595	22.1
Medical equipment	7533	7.7
Electric Machinery	7162	7.3
Pharmaceuticals	6458	6.6
Organic chemicals	5089	5.2
Total	97497	100

## Bilateral Trade in Advanced Technologies

- Germany is also a critical trading partner for advanced technologies. Germany purchases more biotech from the United States -- \$3.37 billion in 2008 -- than any other country. And Germany is the fourth largest supplier of biotech products to the United States (\$513 million in 2008).
- Despite Asian manufacturers' dominance in information and communications technologies, Germany is the United States' tenth largest ICT supplier and its biggest European supplier (\$1.6 billion in 2008). Germany also is the United States' eighth largest export market for such products (\$2.6 billion).
- After Ireland, Germany is the leading supplier of life sciences products to the United States (\$3.4 billion in 2008) and among the three largest U.S. export markets for such products (\$2.47 billion).
- Germany is the 12th largest export market for American electronics (\$1.5 billion in 2008) and the 11th largest supplier of electronics to the United States (\$802 million).
- Germany is the largest market for American opto-electronic products (\$732 million in 2008). German also is the fourth largest supplier of such products to the U.S. with sales of \$590 million in 2008.
- After Japan, Germany is the second largest supplier to the United States of flexible manufacturing technologies (\$1.1 billion in 2008) and the seventh largest export market (\$633 million) for such technologies from the United States.
- After Mexico, Germany is the United States' largest supplier of advanced materials (\$172 million in 2008). Germany also is the seventh largest export market for American advanced materials (\$79 million).
- Germany is the fourth largest supplier of aerospace technologies to the United States (\$2.8 billion in 2008) and the United States' sixth largest export market (\$5.6 billion).

<b>Bilateral Trade in Advanced Technologies, 2008, in million \$</b>		
	<b>U.S. Exports to Germany</b>	<b>U.S. Imports from Germany</b>
Biotechnology	3,374	513
Information & Communication Technologies	2,632	1,580
Life Sciences	2,480	3,410
Electronics	1,506	803
Opto-Electronics	733	590
Manufacturing Technologies	633	1,077
Advanced Materials	79	172
Aerospace Technologies	5,597	2,800



## **U.S. Trade Relationship by German Land**

- The U.S. ranks among the top five export markets for 12 Laender.
- Bavaria, Berlin as well as Saxony count the United States as their top export market. For 15 out of the 16 Laender, the United States is the most important export market outside of the EU.
- United States is the most important supplier for Hesse, Baden-Württemberg and Berlin.

## **Germany's Trade Relationship by U.S. State**

- California (\$5.7 billion), South Carolina (\$4.7 billion), and Alabama (\$3.1 billion), are the three biggest exporters to Germany among U.S. states.
- Germany is one of the top six export markets for 28 U.S. states.
- Germany is the top export market for South Carolina (\$4.7 billion) and Alabama (\$3.1 billion), according to 2008 Department of Commerce figures.
- Germany is the third largest export market for Connecticut (\$1.4 billion), Delaware (\$485 million), Michigan (\$1.56 billion), and New Jersey (\$1.9 billion).
- Germany is the fourth largest export market for Iowa (\$572 million), Kansas (\$630 million), Massachusetts (\$2.5 billion), New Hampshire (\$261 million), Rhode Island (\$109 million), Virginia (\$964 million), and Wisconsin (\$790 million).
- Germany is the fifth largest export market for Alaska (\$208 million), Indiana (\$1.27 billion), Maryland (\$496 million), North Dakota (\$94 million), and South Dakota (\$69 million).
- Germany is the sixth largest export market for Arizona (\$963 million), California (\$5.7 billion), Colorado (\$283 million), Georgia (\$1.3 billion), Illinois (\$2.2 billion), Kentucky (\$752 million), Missouri (\$285 million), North Carolina (\$1.0 billion), Ohio (\$1.5 billion), and Tennessee (\$810 million).

## **Public Opinion towards Trade**

- In 2007, the German Marshall Fund found that 57% of Americans believe freer trade costs more jobs than it creates while only 42% of Germans held this view.